
A Summary of Findings and Recommendations for Oversight of the Office of the Chief Financial Officer

December 3, 2021

A letter report by the Office of the D.C. Auditor



Audit Team

Michael Onojeta, Audit Supervisor

November 23, 2021

The Hon. Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, DC 20004

Letter Report: A Summary of Findings and Recommendations for OCFO Oversight

Dear Chairman Mendelson:

I write to share this Letter Report: *A Summary of Findings and Recommendations for OCFO Oversight*, summarizing findings by the Office of the D.C. Auditor (ODCA) citing lack of oversight and internal control deficiencies over a five-year period. We provide this review of earlier audits to assist the Council and a newly designated Chief Financial Officer (CFO) in their strategic planning to improve the operations and management of District programs.

Following the creation of the CFO position along with the D.C. Financial Responsibility and Management Assistance Authority (the control board), the United States Congress granted the CFO statutory authorities, responsibilities, and independence to provide direct control over day-to-day financial operations of each District agency. Pursuant to DC Code **§ 1-204.24d**, the CFO is required to maintain systems of accounting and internal control designed to provide effective control over, and accountability for, all funds, property, and other assets of the District of Columbia. Given the financial management challenges faced by District agencies and programs as evidenced by the findings summarized in this report, the Office of the Chief Financial Officer (OCFO) is in a unique position to assert its independence and authority and leverage its expertise in providing objective advice through its cadre of Agency Fiscal Officers to improve the quality of financial management, transparency, and accountability in District agencies' operations and programs.

From fiscal year (FY) 2015 through FY 2020, ODCA released more than 100 reports, including audits, revenue certifications, and program evaluations. These reports contained numerous findings covering a wide range of issues, from weak or missing standard operating procedures to a lack of compliance with regulations and laws. Our reports noted accounting irregularities, inefficient and wasteful spending, and poor recordkeeping. Many of our findings are similar from report to report as we find familiar shortcomings in operations throughout the District government.

After reflecting on the similarities of our findings from report to report and agency to agency, we issued a white paper in January 2019, [The Case for District-Wide Internal Control Standards](#), which highlighted weaknesses in the internal controls in nearly every District agency we audited. It was not a separate audit as such, but rather a call for fundamental change in the way that the District government is organized, recommending the creation and implementation of an internal control standard for District agencies similar to the requirement for federal agencies to certify each year that they are in compliance with Office of Management and Budget and Government Accountability Office (GAO) standards or Green Book.

The GAO defines internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations¹. Effective management oversight and internal controls are critical to the successful and effective operation of government programs. ODCA's unique position as internal auditor can help identify shortcomings and promote improvements.

The purpose of this letter report is to summarize our internal controls and management oversight findings and recommendations over the past five years as they relate to the OCFO, emphasizing that issues we have identified are District-wide. Operations as diverse as school modernization, the summer youth employment program, worksite parking program, fund management, and building affordable housing rely on strong oversight and effective internal controls to achieve high performance, ensure accountability to District stakeholders, and comply with the law.

We hope the findings summarized here are useful examples of the kinds of internal control and management oversight problems that are common among District government operations and should be monitored and corrected. We acknowledge that some of the findings may have been addressed since first reported or since we last sought an update on the recommendations. Our purpose in sharing this aggregation is to highlight issues that can and should be addressed wherever they may occur in our government.

School Modernization Program: Lack of oversight, accountability, transparency, financial management, and compliance with laws and regulations

In the past five years, ODCA conducted several audits of the District's school modernization program pursuant to D.C. Code § 38-2973.05, which requires the Auditor to monitor compliance with statutes, regulations, and policies regarding the school modernization program. In July 2015, we published a report titled: [The District's School Modernization Program Has Failed to Comply with D.C. Code and Lacks Accountability, Transparency and Basic Financial Management](#). The report detailed among other issues a lack of basic financial management; weak accounting controls, including lack of financial data and documentation to support payments made to contractors; failure to monitor school modernizations for

¹ GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

compliance with statutes and contracts; and best practices.

Although ODCA did not direct specific recommendations to the OCFO, the School Modernization Program is managed as part of the Capital Budget and could benefit from increased financial oversight by the OCFO and the Agency Fiscal Officer. Considering that the District spends a significant portion of its budget on school modernization, it is imperative for the OCFO to ensure that proper oversight and effective internal controls are established to ensure that program objectives are achieved.

Below are some of the findings in the report that merit OCFO's attention:

- Over several years the District disregarded the funding provisions of the School Modernization Financing Act of 2006.
- The District Government failed to monitor school modernizations for compliance with all relevant statutes, contracts, best practices, and to secure cost savings.
- Neither the Department of General Services (DGS) nor the contract project manager at the time could properly support a substantial number of payments made to District contractors, creating the risk of improper payments.

Specific weaknesses discussed in the report include:

- Cost overruns.
- Lack of documentation to support \$15.3 million in payments, and another \$12.7 million for project management services without documentation of what the District received.
- Lack of policies and procedures.
- Failure to track and account for assets purchased with school modernization funds.
- Using appropriated funds for other projects such as parks and community centers.

Other reports on the school modernization program issued by ODCA include:

- [The Department of General Services Failed to Provide Information the DC Council Needed to Make Informed Decisions on the Scope and Cost of Modernizing the Duke Ellington School of the Arts](#) (May 31, 2016).
- [The District May Have Forfeited Nearly \\$500,000 Through Changes to the Contract for the H.D. Cooke Elementary School Modernization Completed in 2010](#) (July 13, 2016).
- [The Department of General Services Needs Guidance and Assistance to Develop Effective Internal Controls](#) (July 17, 2017).

Housing Production Trust Fund: Lack of internal controls, compliance with laws and regulations, and poor operation and financial management

The Housing Production Trust Fund (HPTF), managed by the Department of Housing and Community Development (DHCD), provides loans and grants to for-profit and non-profit developers seeking to build or preserve existing affordable housing for targeted populations in the District.

Between June 2016 and March 2018, we published three reports that focused on the administration of the HPTF. The reports include:

- [The District of Columbia Housing Production Trust Fund: Revenues and Expenditures and 5-City Comparison](#) (June 30, 2016).
- [DHCD Should Improve Management of the Housing Production Trust Fund to Better Meet Affordable Housing Goals](#) (March 17, 2017).
- [Stronger Management of the Housing Production Trust Fund Could Build More Affordable Housing](#) (March 20, 2018).

We conducted the audits to help the Mayor, Council, District agencies including DHCD and OCFO, and other stakeholders make the HPTF a more effective tool to address the District's affordable housing crisis and to serve as a national model for accountability, transparency, and efficiency. The audits identified key weaknesses in the HPTF program that were preventing the District from achieving its goal of maximizing the creation and maintenance of affordable housing units for low-income residents. Specifically, the reports detailed lack of internal controls and poor financial management, and failure to comply with reporting requirements, which resulted in overspending on administrative costs, as well as improper repayments of federal grant money, and uncovered why these events occurred and how to prevent them.

In the March 2018 report titled: *Stronger Management of the Housing Production Trust Fund Could Build More Affordable Housing*, ODCA discussed how OCFO failure to adhere to the intent and letter of the law and provide rigorous oversight led to inefficiency and resulted in less funding available to create and preserve affordable housing for District residents.

D.C. Code § 1-204.24d outlines the duties of the CFO which include:

(6) Supervising and assuming responsibility for financial transactions to ensure adequate control of revenues and resources.

and

(16) Certifying and approving prior to payment of all bills, invoices, payrolls, and other evidences of claims, demands, or charges against the District government, and determining the regularity, legality, and correctness of such bills, invoices, payrolls, claims, demands, or charges.

Some of the findings in the report include:

- DHCD and the OCFO could not provide loan or grant documentation to support \$13 million in HPTF spending, 2% of total HPTF spending within the audit scope.
- DHCD and the OCFO spent \$16.6 million from the HPTF on repayments to the U.S. Department of Housing and Urban Development (HUD) due to DHCD's ineffective management of federal grants.
- The OCFO failed to reprogram the funds prior to repayment, which obscured HPTF spending for the D.C. Council and other oversight bodies.

The audit also found evidence that existing controls were overridden, which means that we were unable to rule out the possibility of fraud during the scope of the audit. ODCA concluded that it is the responsibility of the OCFO to detect, prevent, and correct many of the practices and issues relating to HPTF expenditures as outlined under District law. To address the breakdown in controls, ODCA recommended that the OCFO conduct a written assessment on how it will reassert its independence from the agencies it serves by instituting new safeguards. These steps could include a prescribed rotation of key OCFO employees between agencies and/or clusters to reduce entrenchment and bias; training staff on existing laws, regulations, and SOPs relating to financial transactions; and disciplining personnel when they do not follow laws, regulations, and SOPs. *See Appendix A for specific Findings and related recommendations directed to the OCFO.*

Summer Youth Employment Program: Lack of management oversight

The District of Columbia's summer youth employment program is typically a six-week locally funded initiative sponsored by the Department of Employment Services (DOES) to provide District youth ages 14 to 24 with enriching and constructive summer work experiences through subsidized placements in the private and government sectors. The program, officially known as the Marion S. Barry Summer Youth Employment Program (MBSYEP), has served thousands of youths annually since it began in 1979 at a cost of approximately \$15 million annually.

Past reviews² of the program reported serious breakdown of management oversight and control including lack of efficient and effective financial management by DOES and the OCFO. Recognizing that effective management oversight and controls are critical to the success of the MBSYEP, as well as the prevention of waste, fraud, and abuse, the Council enacted legislation in 2015 directing ODCA to "conduct an evaluation of multiple years of the summer youth jobs program to assess whether the program has met and is

2 In 2008 and 2009, the ODCA, the Office of the Inspector General (OIG), and the Office of the City Administrator conducted audits of the MBSYEP. For instance, ODCA found that, "[t]he lack of efficient and effective financial and management oversight by DOES and the [Office of the Chief Financial Officer] OCFO caused the ... program to fall short of achieving its program objectives and ensuring District assets were properly managed and safeguarded from fraud, waste, and abuse." Similarly, OIG reported that, "DOES did not establish adequate internal controls for the 2008 SYP ... and the 2008 SYP was susceptible to theft, abuse, and fraud." DOES' inability to administer the registration and payroll systems properly led to a major increase in the original budget of \$14.5 million to an actual program cost of \$52.4 million.

meeting program objectives.”³ As a result, ODCA conducted several audits and published the following reports between 2016 and 2017 listed below.

- [Review of Summer Youth Employment Programs in Eight Major Cities and the District of Columbia - Office of the DC Auditor](#) (April 21, 2016).
- [Review of Marion S. Barry Summer Youth Employment Program Data and Activities](#) (June 2, 2016).
- [Site Visit Observations: 2016 Marion S. Barry Summer Youth Employment Program](#) (December 21, 2016).
- [Internal Control Weaknesses Found in Marion S. Barry Summer Youth Employment Program](#) (March 21, 2017).

The audits further highlighted the ongoing need for DOES and OCFO to provide sound financial management and oversight of this important program to ensure the achievement of established goals and objectives. For instance, ODCA’s review of the program management and internal controls in the March 2017 report detailed, among other issues, lack of internal controls surrounding enrollment, payroll processing which failed to comply with legally mandated wage rates, and hours of work for program participants.

Special Purpose Revenue Funds, Performance-Based Budget, and Worksite Parking Program: Lack of compliance with requirements

ODCA has also identified and reported lack of compliance with laws and regulations related to the financial management and operations of District agencies, which has resulted in wasteful and inefficient use of District funds. The OCFO can make a major contribution to remediating this pervasive weakness by leveraging the agency’s statutory authorities and independence to provide oversight of each District agency’s expenditures to ensure statutory compliance with budget authority, grants requirements, payroll taxes and withholdings.

The following reports released in the past five years (not an exhaustive list), discussed the lack of compliance with laws and regulations related to the financial management and operations in District programs.

[Elected Officials Create Special Funds But “Sweep” Dollars for Other Purposes](#) (April 25, 2019)

In this report, we discussed how the proliferation of Special Purpose Revenue Funds (Funds), and their use as a source of general fund revenue in recent years appear to violate the intent of the Congressionally enacted statute which authorized elected officials to create such Funds to improve the efficiency of the

3 See Title VII, Subtitle B, Section 7026 of the Fiscal Year 2017 Budget Support Act of 2016, L21-0160 Effective from Oct 08, 2016. (D.C. Law 21-160).

District government. In addition, in many cases the intent of individual funds was circumvented by the Council's subsequent transfer of money. Specifically, we noted some Funds were created administratively without clear statutory authority; Fund revenues were used for unrelated purposes; more than \$142 million of non-lapsing Funds were swept to the General Fund; and repealed Funds were not closed out and continued to show activity. Additionally, many Funds continued to carry large and increasing fund balances with less than half of the revenue expended for the underlying fund purposes. *See Appendix B for specific Findings and related recommendations directed to the OCFO.*

Management Alert: District Government Not in Compliance with Statutory Performance Budget Requirement (February 13, 2019)

In this Management Alert, we brought the lack of compliance with the District's Performance-Based Budget (PBB) requirements to the attention of the Mayor and Council. D.C. Code §47-308.01 sets out the timetable and requirements for the District's budget and states: "each agency that has transitioned to the performance-based budget format shall submit a copy of its strategic business plan to the Council prior to January 31 of each year." All major agencies transitioned to a "performance-based budget" between 2003 and 2007. Further, §47-308.01(g)(2) states that, "The Office of the City Administrator, *in conjunction with the Office of the Chief Financial Officer*, shall make available in electronic format copies of agency strategic business plans to the public and shall display the strategic business plans on the District government's internet site" (emphasis added). We specifically noted in the alert that strategic business plans had not been provided to the Council as of the January 31, 2019, deadline, nor have they been posted to the dc.gov website.

Under the PBB structure, the Office of Budget and Planning within the OCFO is tasked with taking the lead on reviewing expenditures, program definitions, performance measures, and benchmarks as outlined under D.C. Code §47-308.01(f). However, ODCA noted that both the Administration and the OCFO have shifted focus from the vision of Performance-Based Budgeting. The original vision of the PBB was built around the actual costs of services and activities to be able to calibrate increases or reductions in budget allocations based on the efficiencies of current service delivery, to "programs costs and outcomes." As such, ODCA recommended compliance with the provisions of the D.C. Code §47-308.01 or consider, with the D.C. Council, altering the provisions of the code.

The District's Worksite Parking Program Treats Employees Inequitably and Could Increase Revenue (August 2, 2018)

In August 2018, we published a report that focused on the management and administration of the District's Worksite Parking Program (Program). The Program, which at that time provided more than 1,000 parking spaces at seven District-owned buildings and three leased facilities to District government employees, is primarily administered by DGS. However, each participating agency and the Office of the Chief Financial Officer's Office of Pay and Retirement Services (OCFO/OPRS) play important roles in administering the Program.

We found that DGS did not effectively manage the program, which led to inconsistent treatment of program participants, some free employee parking, and loss of revenue to the District. In addition, ODCA found internal control deficiencies that included a lack of supervisory reviews, segregation of duties, program monitoring, and unreliable program data. For example, the inequitable treatment involved some employees parking for free at District-owned and leased facilities throughout the District while others paid for parking through enrollment in the Program. We also found instances when employees who parked for free should have been taxed on a portion of the parking benefits they received. Neither the Office of the Chief Financial Officer nor DGS effectively and adequately addressed this disparity. *See Appendix C for specific Findings and related recommendations directed to the OCFO.*

As the leadership of the District considers a successor Chief Financial Officer, I hope that this compilation of ODCA's findings and recommendations on internal control deficiencies and management oversight in the District, specific to the large role of the OCFO, will be useful to you and your colleagues. Please let me know if we can provide any additional information on the findings from the reports cited here. We will continue to follow up and collaborate with you on the robust implementation of effective internal controls.

Thank you.



Kathleen Patterson

D.C. Auditor

cc: The Hon. Kenyan R. McDuffie, Chairman, Council Committee Business and Economic Development

Appendix A

Stronger Management of the Housing Production Trust Fund Could Build More Affordable Housing

March 20, 2018

Audit Findings	Rec #	Recommendations	Current Status ⁴
DHCD and the OCFO could not provide loan or grant documentation to support \$13 million in HPTF spending, 2 percent of total HPTF spending. It took more than one year for DHCD to provide some of the documents.	1	DHCD should maintain a database with complete, accurate and accessible information on the HPTF. The agency should seek to use HPTF data verified by ODCA; store an accessible copy of all agreements (with the borrower's name, date award occurred, number of affordable units, AMI, loan amount, interest rate, and period of affordability); track borrower compliance with loan agreements; and provide access to the public and the OCFO to enable OCFO monitoring of HPTF agreements and expenditures.	In progress

⁴ Current Status reflects agency response in the most recent ODCA Recommendation Compliance Report.

Audit Findings	Rec #	Recommendations	Current Status ⁴
DHCD and the OCFO spent \$16.6 million from the HPTF on repayments to the U.S. Department of Housing and Urban Development (HUD) due to DHCD's ineffective management of federal grants. They also failed to reprogram the funds prior to repayment, which obscured HPTF spending for the D.C. Council and other oversight bodies.	2	The OCFO's Office of Integrity and Oversight should conduct a written assessment of whether management of the Economic Development and Regulation Cluster regularly enforces the requirement to use a reprogramming when repurposing "budget authority for uses other than originally planned and approved." If they do not, the OCFO should create a written action plan to increase enforcement.	Implemented
	3	The OCFO's Office of Integrity and Oversight should conduct a written assessment of whether management of the Economic Development and Regulation Cluster uses appropriate funding sources for reprogramming, and specifically to determine if the Cluster should use more appropriate funds (such as the General Fund surplus or the reserve fund) that would keep HPTF funding in circulation for new affordable housing projects. If they do not, the OCFO should create a written action plan to improve the execution of reprogramming.	Implemented
	4	The OCFO should create a written action plan to improve internal controls throughout the Cluster or agency, with special emphasis on ensuring that the allocation of federal and local dollars is compliant with requirements.	Implemented
The HPTF has not functioned as a revolving fund in that DHCD has collected far less than is owed and loan repayments have been and are projected to be a very small percentage of revenue.	6	The OCFO should include the specific figures for the HPTF allowance for doubtful accounts for long-term loans in the Management's Discussion and Analysis in the Comprehensive Annual Financial Report.	Implemented

Audit Findings	Rec #	Recommendations	Current Status ⁴
DHCD exceeded the HPTF administrative expenditure cap for FYs 2009, 2012, and 2015, totaling over \$10 million that should have been invested in affordable housing projects, and the OCFO permitted the expenditures. DHCD and the OCFO's accounting obscured both the true costs of the HPTF and the Fund's efficiency in producing affordable housing.	8	The OCFO and DHCD should enter into an MOU on an annual basis that defines the intra-District transfer of HPTF funds. This MOU should include the amount that administrative costs are not to exceed for the year based on funds deposited.	Will not be implemented; management accepts risk
	9	In its monthly reports required per the MOU, the OCFO should ensure that HPTF administrative spending is on track to comply with the cap.	Implemented
	10	DHCD should work with the OCFO to develop criteria for what constitutes appropriate HPTF administrative and project expenditures, include the criteria in the HPTF SOPs and MOU, and document compliance with the criteria during the closeout of the MOU at year-end.	Implemented
	11	To address the breakdown in controls relating to the administration of the HPTF, the OCFO should conduct a written assessment on how it will reassert its independence from the agencies it serves by instituting new safeguards, such as a prescribed rotation of key OCFO employees between agencies and/or clusters to reduce entrenchment and bias; train staff on existing laws, regulations, and SOPs relating to financial transactions; and impose disciplinary actions for personnel when they do not follow laws, regulations, and SOPs.	Will not be implemented; management accepts risk

Appendix B

[Elected Officials Create Special Funds But “Sweep” Dollars for Other Purposes](#) (April 25, 2019)

Audit Findings	Rec #	Recommendations	Current Status*
The OCFO created (Special Purpose Revenue Funds) SPRFs without legal authority.	3	The OCFO should ask the D.C. Council for authorizing legislation for all SPRFs created administratively.	Will not be implemented; management accepts risk
Many Funds have spent less than half of their revenue and have carried a large and increasing fund balance.	4	The OCFO should include the following in its SPRF report: Fund expenditures, percent of revenue spent each year, and sweep amounts.	Will not be implemented; management accepts risk
The OCFO allowed spending outside of Fund purpose.	6	The OCFO should strengthen its SOPs to include: 1) requirements for monitoring SPRF compliance with purpose and allowable uses (research legislative intent of Funds, if necessary); 2) criteria for AFO SPRF expenditure final approval process; 3) direction to AFOs to regularly monitor SPRFs legal status and activity, ensure the revenue source is appropriate; and 4) procedures and timelines for the timely inactivation of Funds in the event they are repealed.	Implemented
Lack of clarity and consistency implementing the Delinquent Debt Fund’s transfer requirement.	9	The OCFO should document a single methodology for calculating the amount of revenue to be transferred to the General Fund each year for the Delinquent Debt Fund and ensure that it is followed.	Implemented

Appendix C

The District's Worksite Parking Program Treats Employees Inequitably and Could Increase Revenue

August 2, 2018

Audit Findings	Rec #	Recommendations	*Current Status
DGS and OPRS reimbursed 11 employees for parking, even though the reimbursements did not comply with Program requirements; one improper employee reimbursement was for approximately \$2,700.	4	OPRS should significantly improve its supervisory reviews of payments and documentation.	Implemented
The OCFO did not ensure that the District complied with IRS guidelines, resulting in approximately 108 employees, 10 who were not taxed on approximately \$43,492 in parking benefits in 2016.	5	OCFO should consult with DGS and OCTO and establish an MOU describing procedures for how the District will comply with IRS qualified parking requirements at the end of calendar year 2018. These agencies should determine the processes and parties responsible for: completing annual analyses for District owned and leased properties, identifying locations where the average market rate for parking exceeds the IRS's annual qualified parking threshold, determining which employees received parking at those locations, and then providing the OPRS with the names of the employees and the value of taxable qualified parking that should be reported in employees' income (i.e., the difference between the "cap" or tax-free sum provided for "qualified parking," and the actual market rate of the parking).	In progress

DGS did not administer parking programs for D.C. Public Schools (DCPS) headquarters and the Office of the Chief Financial Officer (OCFO), contrary to DGS requirements.	10	If agencies such as the OCFO continue to manage parking programs outside of the Program, then OPRS should submit biweekly reports to DGS that only include Program employees.	Implemented
OPRS reports were incomplete, which hindered DGS from verifying that employees received parking deductions.	11	OPRS should ensure that the biweekly payroll reports include all Program deductions that took place during the payroll period regardless of whether the employee is still listed as active in PeopleSoft.	Implemented
Area of Concern: Approximately 151 employees may not have been taxed on an estimated \$65,232 in parking benefits in 2016 because the OCFO has not determined whether parking near the Wilson Building qualifies as a fringe benefit subject to taxation.	13	The OCFO should make a determination or seek an advisory opinion from the IRS on whether parking at the Wilson Building falls under the definition of qualified parking and if it does, include the amount of taxable qualified parking for employees who park at that location in their income.	Implemented

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

Office of the District of Columbia Auditor
717 14th Street N.W.
Suite 900
Washington, DC 20005

Call us: 202-727-3600

Email us: odca.mail@dc.gov

Tweet us: https://twitter.com/ODCA_DC

Visit us: www.dcauditor.org



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